



## **INTERMEDIATE SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

### **PUBLIC DISCLOSURE**

**September 12, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Elk River  
Charter Number 8757**

**729 Main Street  
Elk River, MN 55330**

**Comptroller of the Currency  
Minneapolis North  
920 Second Avenue South Suite 800  
Minneapolis, MN 55402**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loan originations are made within the bank's assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services.

## **SCOPE OF EXAMINATION**

We evaluated the bank's Community Reinvestment Act (CRA) performance under the Lending and Community Development tests as described in the Intermediate Small Bank CRA guidance.

For the Lending Test, we evaluated the bank's HMDA and small business loans. The evaluation period was January 1, 2002 through December 31, 2004. We compared 2002 loan data against the 1990 census data, and compared 2003 and 2004 loan data against the 2000 census data. Small farm loans were not analyzed because of the limited number of farms in the assessment area (AA).

For the Community Development Test, we evaluated the bank's community development loans, qualified investments and community development services from September 3, 2002 through August 31, 2005.

To assess the accuracy of the bank's HMDA and CRA data, we compared reported information to credit file documentation for an independent sample of loans. We concluded that the data was accurate and used the reports for data analysis.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Elk River (FNB) is a \$344 million intrastate bank headquartered in Elk River, Minnesota. FNB's seven offices are located in the northwest section of the Minneapolis-St. Paul MSA. Three offices, including the main, are located within the city of Elk River. The other offices are located in the cities or townships of Anoka, Hassan, Monticello and Zimmerman.

FNB is owned by First National Financial Services, a one-bank financial services company also headquartered in Elk River, Minnesota. First National Financial Services and other bank affiliates are not engaged in any activities that materially impact the bank's CRA performance.

FNB is a full-service financial institution, offering a wide variety of commercial and retail banking products and services, and insurance products through an affiliate. The bank's lending focus is small- to medium-sized businesses and present and potential homeowners. As of June 30, 2005, FNB's net loans and leases totaled \$190 million or 55% of the bank's total assets. The loan portfolio was comprised of commercial and commercial real estate loans (71%), construction and land development (10%), residential real estate loans (15%), loans to individuals (3%), agricultural and all other loans and leases (1%). Tier 1 capital totaled \$38.4 million as of June 30, 2005.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its AA.

The bank's most recent CRA performance evaluation was dated September 3, 2002 and a rating of "Satisfactory" was assigned. At that evaluation, the bank was evaluated under the Large Bank performance test. This examination is being completed under the Intermediate Small Bank performance test.

## **DESCRIPTION OF ELK RIVER ASSESSMENT AREA**

FNB has one AA, which consists of fifty-four census tracts located in the northwest section of the Minneapolis-St. Paul MSA. The AA includes portions of the following counties: Anoka, Hennepin, Sherburne, and Wright. Most of the tracts are middle-income. There are no low-income census tracts and only one moderate-income census tract that is located in the AA. The one tract designated as moderate-income is primarily the city of Anoka's business district. FNB has one office in Anoka that is located adjacent to the moderate-income census tract.

The bank operates seven offices within the AA. The bank's main office and two other offices are in the city of Elk River. In addition, FNB has offices in four surrounding communities: Anoka, Hassan, Monticello, and Zimmerman. FNB also has an active mortgage department that operates out of a separate office located in Elk River. The bank operates seven ATMs within its AA. One ATM is located in the Sherburne County Government Center and the others are located at bank offices. The bank previously had one ATM in a convenience store that was removed in September 2005. The bank provides a full range of financial products and services. FNB is an especially active business lender and is a significant home mortgage lender as well.

Competition among financial institutions is strong. Based on June 30, 2005 data, there are 26 different financial institution with offices and deposits in the bank's AA. FNB ranks third in terms of deposit market share (12.11%) in the bank's AA. Based on publicly reported 2000 data, there are many additional lenders originating and purchasing loans in the assessment beside those institutions that have a bank branch in the AA. FNB's primary banking competitors are Wells Fargo, U.S. Bank, TCF, and M&I Bank in addition to a number of smaller community banks.

We contacted one person who works within the business community of the Elk River area. The contact mentioned the growing economy and the shift away from a commuter community. Over the last 2 years the area has seen increased growth in the commercial business area with an influx of light industrial and service industry businesses. He mentioned the need for affordable housing. He also stated that the degree of involvement in the community by area financial institutions is good.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending Test

The bank's CRA performance for lending is satisfactory. We based this conclusion on HMDA reportable loans, including residential home purchase and refinance loans, and small business loans. We placed more emphasis on the bank's small business loans as this represented the largest percentage (over 69%) of the primary lending products.

### Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio of 75.60% is reasonable given the bank's size, financial condition, and AA credit needs. FNB ranked sixth of the similarly situated banks which are defined as those national and state chartered banks with total assets as of June 30, 2005 between \$150MM and \$1,200MM with branches located within FNB's AA. There are 26 institutions in the market, with FNB ranked third in deposit market share at 12.11%. Wells Fargo Bank NA ranked in first place at 19.84%. Compared with the other banks listed below, the bank's loan-to-deposit ratio is satisfactory.

Financial Institution	Total Assets (as of 6/30/05)	Avg LTD
Village Bank, St. Francis Minnesota	\$155 Million	90.36%
Kleinbank, Big Lake Minnesota	\$1,170 Million	90.19%
21 <sup>st</sup> Century Bank, Loretto Minnesota	\$310 Million	85.61%
Highland Bank, St. Paul Minnesota	\$407 Million	83.01%
The Bank of Elk River, Elk River Minnesota	\$308 Million	81.54%
<b>First National Bank of Elk River</b>	<b>\$354 Million</b>	<b>75.60%</b>
First Minnesota Bank, Minnetonka Minnesota	\$354 Million	63.60%

We calculated the quarterly average loan-to-deposit ratios using UBPR data obtained for each quarter from September 30, 2002 through June 30, 2005.

### Lending in Assessment Area

The level of lending in the AA is reasonable. The majority of the bank's loans and other lending-related activities are in the AA. A total of 73.64% loans by number and 71.10% by dollar were made within the bank's defined AA. We evaluated the bank's loan performance based on its lending for its primary loan products which were residential home purchase loans, refinances of residential home loans, and small business loans. Overall the bank is satisfactory in lending within its AA for all of the primary loan products.

Total Loans Reviewed								
Loan Type	In Assessment Area				Out of Assessment Area			
	#	%	\$ (000's)	%	#	%	\$ (000's)	%
Home Mortgage	632	67.59%	85,097	64.99%	303	32.41%	45,840	35.01%
Small Business	1466	76.63%	209,749	73.94%	447	23.37%	73,923	26.06%
Small Farm	14	70.00%	351	61.15%	6	30.00%	223	38.85%
<b>Total Loans</b>	<b>2112</b>	<b>73.64%</b>	<b>295,197</b>	<b>71.10%</b>	<b>756</b>	<b>26.36%</b>	<b>119,986</b>	<b>28.90%</b>

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall the bank's lending to low- and moderate-income borrowers exceeds the demographics. The distribution of loans reflects, given the demographics of the AAs, excellent penetration among individuals of different income levels and business customers of different sizes. We analyzed the data in two different time periods (2002 and 2003-2004) for our sample period due to changes in census data. The 2002 bank information was compared to the 1990 census data and the 2003-2004 bank information was compared to the 2000 census data.

Residential Real Estate Loans				
Borrower Income Level	Low		Moderate	
Year	2002	2003-3004	2002	2003-3004
% of AA Families	12.51%	13.11%	19.72%	19.46%
% of HMDA loans by bank	10.40%	13.49%	28.71%	29.07%

The borrower distribution of business loans is reasonable. The percentage of business loans made by FNB to small businesses (those with revenues of \$1,000,000 or less) meets the portion of small businesses in the AA.

Business Loans				
Business Revenues	< \$1,000,000		> \$1,000,000	
Year	2002	2003-3004	2002	2003-3004
% of AA Businesses	59.61%	68.33%	4.33%	4.35%
% of Bank Loans in AA	66.36%	60.27%	33.49%	39.24%

(\*\*36% of AA businesses in 2002 and 27% of AA businesses in 2003-2004 did not report income levels.)

## Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. There are no census tracts in the bank's AA designated as low-income, and only one designated as moderate-income. Again, we broke our analysis down into two different time periods (2002 and 2003-2004) for our sample period. We completed our analysis using HMDA and CRA data from January 1, 2002 through December 31, 2004.

The bank's lending is adequate compared to the demographic data for HMDA reportable loans. The bank's primary HMDA product is refinancing of residential real estate loans. As shown below, the percentage of loans the bank has made in the moderate-income tract is below the percentage of owner occupied residences in the AA. This is due, in part, to the high amount of competition among established banks within the AA. This census tract is located in downtown Anoka and only 97% of the families in the AA are located in this census tract.

Residential Real Estate Loans						
Census Tract Income Level	Moderate		Middle		Upper	
Year	2002	2003-2004	2002	2003-2004	2002	2003-2004
% of Owner Occupied	1.24	0.85	89.64	86.11	9.11	13.04
% of HMDA Loans by bank	0.50	0.47	99.01	94.19	0.50	5.35

The bank's lending is excellent compared to the demographic data for small business loans. Small Business loans are the bank's primary loan product. As shown below, the percentage of small business loans made in the moderate-income tract exceeds the demographic data.

Business Loans						
Census Tract Income Level	Moderate		Middle		Upper	
Year	2002	2003-2004	2002	2003-2004	2002	2003-2004
% of AA Businesses	3.07	2.87	91.16	84.48	5.73	12.65
% of Bank's business loans	4.31	3.55	94.15	86.90	1.54	9.55

## Responses to Complaints

The bank has not been subject to any CRA complaints since the last examination.

## Community Development Loans, Qualified Investments, and Community Development Services

The bank's performance under the Community Development Test is rated Satisfactory.

The bank's community development performance demonstrates reasonable responsiveness to community development needs in its AA through community development loans, qualified investments, and community development services. While the entire Minneapolis-St. Paul MSA has numerous investment opportunities available, the counties comprising FNB's AA present limited opportunities. In our analysis we considered the AA needs and the availability of opportunities for community development in the bank's AA.

### *Community Development Loans*

FNB has an adequate level of community development loans. During the evaluation period, FNB originated or purchased eleven community development loans totaling \$5,440,095. All of the loans were to renovate and/or build housing for LMI persons. Four of these loans were for projects located within the bank's AA and addressed the need for affordable housing in the AA. The other seven loans were made in the broader area that includes other counties in the Minneapolis-St. Paul MSA, or the Central Minnesota region.

### *Qualified Investments*

FNB had an adequate level of community development investments. During the evaluation period, the bank's qualified investments included fifteen donations totaling \$46,300 to organizations located in the bank's AA. These donations supported a variety of community needs. Seven of the donations totaling \$33,000 provide support for affordable housing, seven of the donations totaling \$9,300 were made to organizations that provide for economic development of the AA, and one donation of \$4,000 was made to an organization that provides community services for LMI families

### *Community Development Services*

The bank provides a good level of community development services through its branches, products and activities with local organizations that support qualified community development activities.

All of FNB's branches are located in middle-income census tracts with one branch just outside of the AA's one moderate-income census tract. In addition to their full-service branch and ATM locations, FNB also offers internet banking and telephone banking for added availability to the bank's products. FNB offers a full-range of consumer and commercial banking products and services at all seven branches.

FNB employees provide community development services, occasionally in a leadership role. Bank employees regularly participate in a variety of organizations that primarily benefit LMI individuals, promote economic development, or provide affordable housing. During the evaluation period, bank employees lent their financial expertise to seven different community development organizations.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.